PAGE 01 OF 02 STATE 207590 5413 STATE 207590
ORIGIN EB-08

INFO OCT-00 ADS-00 AID-07 INR-10 EUR-12 CIAE-00 EA-10
NSAE-00 COME-00 LAB-04 TRSE-00 CEA-01 OMB-01 STR-11
SIL-01 INRE-00 AGRE-01 FRB-03 SP-02 /071 R

DRAFTED BY EB/OFP/FPD:RFURNESS:ML
APPROVED BY EB/ORF/OFP:DONALD F. HART
USDA:DSMITH
EUR/RPE:EMARCOTT (INFO)
EA/ANZ:PLANGFORD (INFO)
EUR/SOV:NBURAKOV

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY ____ DATE 4/4/84
177637 860826Z /65
RDS ☐ or XDS ☐ EXEMPTION DATE ____
TS AUTH. ____ REASON(S) ____
REVERSE EXISTING MARKINGS
DECLASSIFIED ☐ RELEASABLE ☐
RELEASE DENIED ☐
FOIA or FOI EXEMPTIONS ____

O 860845Z AUG 86 ZEX
FM SECSTATE WASHDC
TO EC COLLECTIVE IMMEDIATE
AMEMBASSY WELLINGTON IMMEDIATE
AMEMBASSY TOKYO IMMEDIATE
AMEMBASSY CANBERRA IMMEDIATE
AMEMBASSY OTTAWA IMMEDIATE
INFO AMEMBASSY MOSCOW IMMEDIATE

LIMITED OFFICIAL USE STATE 207590

USEEC

E.O. 12065: N/A

TAGS: EAGR, ETRD, EEC, NZ

SUBJECT: U.S. BUTTER SOLD TO NEW ZEALAND

REF: A) STATE 199244 B) STATE 200298

1. (U) USDA MADE THE FOLLOWING PUBLIC ANNOUNCEMENT AUGUST 5:
(BEGIN TEXT) U.S. SELLS NEW ZEALAND 220 MILLION POUNDS OF SURPLUS BUTTER.
WASHINGTON, AUG. 5 -- THE UNITED STATES TODAY SOLD 220 MILLION POUNDS OF GOVERNMENT-OWNED SURPLUS BUTTER TO THE NEW ZEALAND DAIRY BOARD FOR $155 MILLION.

SECRETARY OF AGRICULTURE JOHN R. BLOCK, WHO ANNOUNCED THE SALE, SAID THE PRICE IS $1,550 PER METRIC TON, LOADED AT THE WAREHOUSE, FOR DELIVERY BETWEEN SEPTEMBER 1 AND JUNE 30, 1987.

HE SAID THE SALE WILL REDUCE BURGEONING GOVERNMENT BUTTER STOCKS, WHICH ARE OWNED BY THE COMMODITY CREDIT CORPORATION (CCC), BY HALF, AND PERMIT THE CCC TO RECOVER PART OF THE COSTS OF OPERATING THE MILK PRICE SUPPORT PROGRAM. SOME OF THE BUTTER PURCHASED UNDER THE PROGRAM HAS BEEN STORED SINCE MAY 1979.

BLOCK SAID THE CCC ACCUMULATION OF 440 MILLION POUNDS OF UNCOMMITTED BUTTER IS THREE TIMES THE ANNUAL AMOUNT REQUIRED FOR U.S. DOMESTIC DONATION PROGRAMS, AND CCC RESALE PRICE POLICY PREVENTS ITS BUTTER FROM COMPETING IN THE U.S. WHOLESALE MARKET.

HE SAID THE UNITED STATES NOW HOLDS A MAJOR PORTION OF THE WORLD'S STOCKS AND SELLING THE BUTTER TO NEW ZEALAND OFFERS THE BEST COURSE TO REDUCE CCC CARRYING AND STORAGE COSTS, WHILE PREVENTING AN INFLUX OF U.S. BUTTER FROM DISRUPTING WORLD BUTTER MARKETS OR TRADING PATTERNS.

"WE RECOGNIZE OUR INTERNATIONAL OBLIGATIONS WITH RESPECT TO ORDERLY TRADE," HE SAID. "AS A LEADING DAIRY EXPORTER, NEW ZEALAND IS IN A POSITION TO MANAGE THE MOVEMENT OF THIS BUTTER TO THE WORLD MARKETS IN A NON-DISRUPTIVE WAY."

HE SAID THE SALE WAS MADE WITH THE UNDERSTANDING THAT THE DAIRY BOARD WOULD NOT SELL U.S. BUTTER TO THE SOVIET UNION.

BLOCK SAID INCREASED MILK PRODUCTION HAS FORCED HEAVY CCC BUYING UNDER THE DAIRY PRICE SUPPORT PROGRAM THE PAST FEW YEARS. HE SAID CCC STOCKS HAVE MORE THAN DOUBLED SINCE A YEAR AGO.

THE PRESIDENT LAST SPRING SIGNED LEGISLATION ELIMINATING AN INCREASE THAT HAD BEEN SCHEDULED APRIL 1 IN DAIRY SUPPORT PRICES, AND THE ADMINISTRATIONS'S FARM LEGISLATION PROPOSES A LOWER SUPPORT LEVEL THAN THOSE IN THE CURRENT FARM ACT WITH THE GOAL OF BRINGING SUPPLY AND DEMAND INTO BALANCE.

UNDER THE DAIRY PRICE SUPPORT PROGRAM, THE PRICE OF MILK TO PRODUCERS IS SUPPORTED THROUGH PURCHASES BY CCCOF NONFAT DRY MILK, BUTTER, AND CHEESE. (END TEXT)

2. (LOU) POSTS MAY DRAW ON THE ABOVE SHOULD ISSUE BE RAISED BY HOST GOVERNMENT OFFICIALS. SEPTEL FOLLOWS WITH SPECIFIC TALKING POINTS ADDRESSING TRADE AND OTHER ASPECTS OF THE TRANSACTION.

3. (LOU) IN THE INTERIM, POSTS MAY WISH TO DRAW ON FOLLOWING GUIDANCE PREPARED FOR THE DEPARTMENT SPOKESMAN:

QUESTION: CAN THE NEW ZEALANDERS SELL THE BUTTER OR ITS PRODUCTS TO THE SOVIET UNION? CAN THIRD PARTIES BUY FROM NEW ZEALAND AND SELL TO THE SOVIET UNION?-

ANSWER: THE NEW ZEALAND DAIRY BOARD HAS AGREED NOT TO SELL THE BUTTER TO THE SOVIET UNION. AS A RESULT OF THIS SALE THE SOVIETS MAY BE ABLE TO BUY MORE BUTTER OR BUTTER PRODUCTS FROM SOMEWHERE SINCE THERE IS MORE BUTTER ON THE WORLD MARKET. AFTER PASSING THROUGH SEVERAL HANDS OR THROUGH PROCESSING IT MAY BE POSSIBLE THAT SOME OF THE PRODUCTS OF AMERICAN COWS MAY END UP IN RUSSIAN MOUTHS, BUT THIS ARRANGEMENT SHOULD MINIMIZE THAT. WE HAVE DONE AS MUCH AS IS PRACTICAL OR FEASIBLE BY GETTING THE NEW ZEALAND DAIRY BOARD NOT TO SELL THE BUTTER TO THE SOVIET UNION.

QUESTION: DOES THE NEW ZEALAND ARRANGEMENT MEAN THAT THE STATE DEPARTMENT HAS RETREATED FROM ITS OPPOSITION TO DIRECT OR INDIRECT SALES OF U.S. BUTTER TO THE SOVIET UNION?

ANSWER: THIS ARRANGEMENT IS NOT SO AIRTIGHT AS WE WOULD HAVE WISHED IN A PERFECT WORLD. THERE IS A CERTAIN UNAVOIDABLE FUNGIBILITY IN THE SALE OF ANY COMMODITY. HOWEVER, WE HAVE REACHED A PRACTICAL ARRANGEMENT UNDER WHICH THE NEW ZEALAND DAIRY BOARD HAS AGREED NOT TO SELL THIS BUTTER TO THE SOVIET UNION. APART FROM P.L. 480 AID SHIPMENTS THIS IS THE FIRST EXAMPLE I KNOW OF IN RECENT YEARS WHERE WE HAVE INSISTED ON THAT STIPULATION IN THE SALE OF SURPLUS COMMODITIES.

QUESTION: DOES THIS MEAN THAT THE U.S. HAS DROPPED ITS OPPOSITION TO THE USE OF SUBSIDIES IN SALES TO THE SOVIET UNION.

ANSWER: IT DOES NOT. HOWEVER, IN DEALING WITH FUNGIBLE COMMODITIES, THE ADDITION OF SUPPLIES TO THE WORLD MARKET, WHETHER OR NOT THERE ARE SUBSIDIES INVOLVED, NECESSARILY MEANS THAT THERE IS MORE WHICH CAN BE BOUGHT BY THE SOVIET UNION OR ANY OTHER BUYER. THUS THERE ARE ALWAYS SPILL-OVER EFFECTS. OUR HOPE IS THAT WESTERN COUNTRIES WILL NOT SUBSIDIZE THEIR TRADE WITH THE SOVIET UNION. IF WE CAN ACHIEVE THAT GOAL, WE WILL HAVE ACCOMPLISHED QUITE A LOT. INDEED, UNDER THE GATT SUBSIDIES CODE WE ARE WORKING TOWARD A GENERAL DIMINUTION OF SUBSIDIES IN WORLD TRADE.
QUESTION: DOES THIS SALE REPRESENT A CHANGE IN OUR GENERAL OR TRADE RELATIONS WITH THE SOVIET UNION?

ANSWER: IT DOES NOT. WE HAD A SEVERE PROBLEM ON DISPOSAL OF SURPLUS BUTTER AND WE ARE SELLING IT TO THE NEW ZEALANDERS WITH AN UNUSUAL STIPULATION AS AN INDICATION THAT THE SALE REPRESENTS NO CHANGE IN OUR RELATIONS WITH THE USSR.

QUESTION: DOES THIS SALE REPRESENT A BACKDOWN FROM U.S. OPPOSITION TO THE SOVIET INVASION OF AFGHANISTAN?

ANSWER: THE TWO ARE NOT RELATED. THE QUESTION OF SALES OF SURPLUS BUTTER DID NOT ARISE UNTIL AFTER THE LIFTING OF THE GRAINS EMBARGO. WE HAVE IN NO WAY CHANGED OUR OPPOSITION TO THE SOVIET OCCUPATION OF AFGHANISTAN. HAIG